385.232
A282w
copy 2

WHERE OUR RAILROADS STAND TODAY

BY W. W. ATTERBURY,

VICE PRESIDENT IN CHARGE OF OPERATION
PENNSYLVANIA SYSTEM

It is a great pleasure to be with you today.

To any Pennsylvania Railroad man Harrisburg is a place of prime importance. Here our main line between the East and West crosses with our North and South lines. It thus becomes the gateway to the Port of New York and New England, to our Nation's Capital and to the great South.

It is in recognition of its great importance as a railroad center that on March 1 our General Offices were moved from Altoona to Harrisburg.

In addition, it is one of the most important traffic producing centers on our lines.

The railroad situation is, therefore, as I can well appreciate, of paramount interest to the business men of Harrisburg.

Unfortunately, the subject is so broad that to discuss it thoroughly would tax your patience and courtesy. There is not a phase of industry, agriculture, foreign or domestic commerce, or any part

of our social life, that is not intimately associated with our railroads and their success or failure. Transportation is, in effect, the keystone of our economic life.

I will not attempt a general discussion of the subject, but will endeavor to confine myself to clarifying the most vital and essential of the as yet unsolved problems which at present affect our railroads.

Railroad History of the Last Two Years.

Preparatory to this, however, a brief summary of recent history is necessary.

The railroads were taken over by the Government on January 1, 1918. They remained in Governmental possession and operation 26 months, or until March 1, 1920, when they were returned to their owners—under, however, a vastly altered and augmented system of Government regulation and supervision, embodied in what is known as the Transportation Act of 1920. That is the most important piece of legislation regarding railroads ever passed in this Country and, with the possible exception of the Federal Reserve Act, it is probably the most important economic enactment of any kind ever adopted by our Government.

For six months after March 1, the Government, under the terms of the Transportation Act, offered

to guarantee to all railroad companies desiring such protection, net earnings equal to the rentals paid during Federal operation. These rentals were based, for each road, on actual pre-war earnings. With few exceptions, the railroads availed themselves of this safeguard and accepted the guarantee, which was intended to tide them over until the Interstate Commerce Commission, under another provision of the Transportation Act, could work out and place in effect a proper revision of rates. That, as you know, has been done, almost concurrently with a further wage advance.

The six months' guarantee expired on September 1, and all railroads in the Country are now absolutely dependent, for their prosperity and solvency, upon what they can actually earn out of the rates fixed by the Interstate Commerce Commission, and with the traffic which may now offer.

Returns to the Companies No Longer Guaranteed.

Here let me correct a misapprehension which has gained currency even among men otherwise usually well informed. I refer to the supposition that the Transportation Act guarantees every railroad a minimum return. This idea is entertained in all possible forms. Some men, I have found under the belief that the rate provisions of the Act guarantee each company, separately, 5½ per cent. on its

capital stock. Others think it means 5½ per cent. on all securities lumped together. Still others believe each company is separately guaranteed 5½ per cent. on the value of its property.

No one of them is correct. The Transportation Act created no guarantees whatever, save the temporary one which expired September 1. Nor do the provisions of the Act regarding the making of rates have any relation whatever to the amount of stock or other securities issued.

What the Act does provide is that the Interstate Commerce Commission shall divide the Country up into rate-making districts, according to natural traffic divisions, and then establish such rates in each of the districts so created, as will give the railroads, as a whole, of any given district, an aggregate net return equal to not less than 5½ per cent. on the combined value of their property devoted to the public service. In its discretion the Commission may increase the combined yield to 6 per cent., and, as a matter of fact, did so in its recent rate award.

How the Rate Provisions Were Carried Out.

The Commission divided the Country into four districts, consisting, roughly, of (1) the region west of the Rockies; (2) the central portion of the Country, east of the Rockies and along the

Mississippi; (3) the Southern States; and, (4) the Eastern States, including New England.

The Commission, using its own methods, which differ somewhat from those of the railroad accountants, fixed upon a valuation for the total railroad property in each of these four districts, and then readjusted the rates to levels which, in the Commission's belief, will, under efficient management and a continuance of the present volume of traffic, give an aggregate return of 6 per cent. on the total value for each district.

At the rates thus fixed, the railroads are left to compete with each other for the traffic their district affords, and to sink or swim as best they may.

The Pennsylvania Railroad System lies wholly within the fourth-named, or eastern district. We will have as our competitors for the traffic of that district the other large through trunk lines of the East, such as the New York Central north of us and the Baltimore & Ohio south of us, as well as smaller lines which will compete with us for the shorter hauls and local business.

Spirit of Competition Is Preserved.

It is the express purpose of the Transportation Act to retain competition and the spirit of enterprise which it engenders. Some roads will earn

more than 6 per cent. and will then, under another provision of the Act, have to split the surplus with the Government. A few may earn quite large returns on their capitalization, though not an excessive amount on their actual value. Others will earn little or nothing for their stockholders. Some will find it hard to pay their bond interest, and doubtless there will also be some which will have a struggle, and not always a successful one, to make bare operating expenses.

There is no coddling of the railroads in the Transportation Act. There are no charities or subsidies. There are no comforting guarantees for weary or discouraged managements to fall back upon.

If, under its terms, the railroads of this Country are able to give satisfactory service, progressively extend their facilities so as to keep abreast of the times, and provide their owners with a just and reasonable return upon the savings which built these great properties, an achievement will have been recorded, second to none in American business history.

The public and the press I feel we have with us in sympathy and good will.

The Interstate Commerce Commission feels its responsibility and is most constructive in its policy.

The State Commissions, with few exceptions, are going along with the new spirit of constructive public regulation.

Congress, in spite of what I have said of the stern character of the Transportation Act, nevertheless, in that measure, for the first time in the history of American railroad legislation, sincerely threw the weight of the law-making power upon the constructive side.

32 Months' Changes in Rates, Costs and Efficiency.

The 26 months of actual Federal possession and operation, plus the six months of guarantee, which were really a transition period, make altogether a period of 32 months, or two and two-thirds years, from the time responsibility was taken from the private managements to the date on which it was fully restored by the expiration of the temporary guarantee.

In that period of 32 months a great deal has happened. Roughly speaking, railroad wages have been doubled. Efficiency of employes, measured by production per hour, has fallen seriously; it can be conservatively stated now not to exceed 75 per cent. Material prices doubled and trebled. Freight rates have been advanced a total of about 70 per cent. and passenger rates about 40 per cent.

During the period we are considering, rates on American railroads have advanced less than other prices. American railroad transportation is today our cheapest commodity, gauged by a day's

labor, a bushel of wheat or a ton of coal, for each will buy more miles of transportation, either passenger or freight, than ever before in our history. Conversely, the money received for a mile of transportation will buy less of labor or commodities than ever before.

We may, therefore, roughly epitomize the position of the railroads, when the Government guarantee ended on September 1, thus:

Wages up 100 per cent.; material costs up 100 to 200 per cent.; rates up 40 to 70 per cent.; personal efficiency of working forces down to 75 per cent.; railroad rates at a low ebb when measured by the exchange purchasing power of transportation service —the only true gauge of its real price.

Add to this, roadbed and rolling stock worn and depreciated by the stress of war traffic and undermaintenance, with urgent needs the country over for more transportation than the railroads had ever given, and you will realize how heavy a burden those of us who are responsible for railroad management and operation must now carry.

The Two Great Problems Yet to be Solved.

This survey brings me to a statement of the two great problems into which the situation seems to resolve itself.

The first question is whether the 5½ to 6 per

cent. return on railroad valuation provided by the Transportation Act will be sufficient to attract new capital.

The second, is, Can the pre-war efficiency be accomplished?

As to the adequacy of the 5½ or 6 per cent. average return specified by the Transportation Act, it is obvious that the earnings of the railroads must be sufficient to do two things: One is to properly maintain the railroads in their present condition: the other to provide credit sufficient to attract new capital necessary to furnish facilities to meet the growing requirements of our Country.

By careful and efficient management we hope to be able to maintain our property and to continue our record of 74 years of uninterrupted dividends.

I must confess that for the present at least, I am not optimistic as to the second of the two requirements—that relating to the attraction of new capital at the returns as at present fixed.

Where Credit Stands in The World's Markets Today.

The highest credit in the world today is that of the United States Government, and it is on about a 6 per cent. basis. The Republic of France, with the greatest reputation for thrift of any of the large nations, has just floated a loan which

cost her about 9 per cent. The securities of Great Britain, the head of the world's greatest Empire, can be bought to return 8 or 9 per cent.

Switzerland and Belgium have each put out loans on close to a 9 per cent. basis, while our great transportation systems like the New York Central, the Pennsylvania Railroad and the Southern Pacific, have each had to pay close to 7½ per cent.

In view of these facts, how can we find a real credit basis for our American railroad companies, competing with each other for a 5½ to 6 per cent. return and forced to divide with the Government anything that any individual company, by good management, luck or favorable location may be able to earn above the latter figure? The stock of our own company, paid in dollar for dollar and some of it issued at premiums, and representing, owing to the "ploughing in" of earnings during past years, perhaps two dollars of equity in invested value for every dollar face value of the shares, is selling on the market at 16 per cent. below par.

Revision of Earning Power Authorized by Act.

Many other conservatively capitalized and efficiently managed railroad companies are in the same position. We cannot sell new stock at par with old issues below par. The bond market

for the best corporate securities is far above 6 per cent., so we can today raise no money at rates which the Transportation Act permits us to earn.

We may be forced to pay on a 7 per cent. basis for refunding, but where is the money to come from for improvements?

The present provisions of the Transportation Act regarding the average rate of return remain in force until March 1, 1922. After that date, the Interstate Commerce Commission is empowered to fix such rate of return as the circumstances may justify.

Meantime we must live under the provisions of the Act and strive, by care and economy, to give as satisfactory service as possible with the existing plants, and protect existing investments. For such improvements and extensions as it is imperative to make in the near future, the best solution would seem to me to be that advocated last week in Washington by our President, Mr. Samuel Rea, before the Interstate Commerce Commission, namely, a more liberal policy with regard to Government advances at rates which the provisions of the Transportation Act give reasonable assurance of ability to earn.

Certainly, with an average earning power of 6 per cent. we cannot go on indefinitely borrowing at 7 per cent. or 8 per cent. without inviting financial disaster which would be far more harmful to the Country as a whole than even a continued shortage of railroad facilities.

Pride in Work Well Done Must be Restored.

So much for financial matters.

When we come to the second of our great problems—namely, that of restoring pre-war efficiency—we find ourselves facing a situation of a very different nature. We are confronted, not with the rigid terms of a Government statute, but with the most complex questions of human relationship—the aftermath of the great war.

There was a time when the vast majority of the men on the Pennsylvania Railroad were genuinely proud of the company for which they worked. It was a distinction to be known as a "P. R. R. man." We had what we called the Pennsylvania Railroad standards and believed, and were proud of the belief, that they were the highest of any railroad. The men were just as proud of those standards as were the officers and just as jealous in preserving and safeguarding them. There was a spirit from top to bottom of the organization that united in their purpose our officers and men. This is the spirit that we must re-establish.

There are still many thousands of men on the payrolls of our railroad and other systems of the Country who, I am most happy to say, continue to take the old time pride and satisfaction in their work. They are largely the older employes and it is hard to see how we could get along if we did

not have them with us now. They deserve and have our sincere gratitude.

But I regret that there are also on our road, and on the others too, large numbers of men—mostly younger and less experienced—who have never known the pleasure that comes from a job well done nor the satisfaction that comes from loyalty. These are the men whom we must educate.

Some of the Factors Which Cut Down Efficiency.

In general, the principal contributing causes to this state of affairs were:

1. The inevitable contact with political influences during Government control;

2. The adoption of a policy under the Railroad Administration which, unintentionally perhaps, established the closed shop in railroad work through the enforcement of National agreements, with the consolidation of control of all labor matters in Washington and the intentional abolishment of piece-work in railroad repair and construction shops;

3. The elimination of all incentive to individual effort by, in effect, placing all men in their individual crafts all over the Country under similar working conditions and wages;

4. The establishment of National Boards of Adjustment, to which the final settlement of local grievances and cases of individual discipline could be appealed.

There are thousands of men on railroads today who believe, with more or less conviction, as a result of the propaganda put forth by the leaders of the labor organizations, that the interests of Capital and of Labor, of employer and of employe, are opposite and hostile and not mutual and supplementary; that the worker owes no loyalty to his job; that his proper attitude, until Capital and Property can be destroyed, is to demand as much money as it is possible to exact and do as little work as he can get away with.

How Do We Want Railroad Labor Differences Settled?

A saner and more American view of life and duty must be realized. The public should unitedly support the railroad managers in their endeavor to bring this about.

The sure way to accomplish this result is to carry out the spirit of the Transportation Act and restore each Railroad System completely to the status of an individual operating unit, dealing with its own men independently and free from interference by political influence.

Among the most important questions pending in this connection is whether we shall perpetuate National Agreements and National Boards of Adjustment, established under Federal Control, or shall, in accordance with the provision of the

Transportation Act, establish our own set of working conditions by and between our own officers and men, which will meet our own situation, with Local Boards of Adjustment for our railroad to interpret our own schedules; to settle differences or grievances arising between the officers and the men.

If we have Local Boards of Adjustment we shall be complying with the general theory of the Transportation Act, which is to perpetuate the identity of separate Railroad Systems.

If we have National Boards of Adjustment, we shall inevitably return to political domination in railroad labor matters, permanently impair the disciplinary powers of the officers and force the closed shop on all the railroads.

The latter result will come about at once from the fact that the local representatives on National Boards of Adjustment would be union men and none but union men would hope to receive consideration at their hands. The inevitable outcome would be Nationalization of the railroads.

Plan to Use Rail Workers In Paralyzing Strike.

This Nationalization of the railroads, through the National Agreements and National Boards of Adjustment, is on the cards at the present moment, and, to my mind, is one of the most important

questions now before the public. The labor leaders themselves do not deny what they have in mind. In fact, they are perfectly frank about it. I quote from Foster's book on the great steel strike, as follows:

> "When the steel unions end their present educational campaign and launch the next big drive to organize the steel workers (which should be in a year or two) they ought to be prepared to meet the formidable employer combinations sure to be arrayed against them by opposing to them still more formidable labor combinations. The 24 unions should by then be so allied with the miners' and railroad men's organizations that should it come to a strike these two powerful groups of unions would rally to their aid and paralyze the steel industry completely by depriving it of those essentials without which it cannot operate, fuel and rail transportation. How effective such assistance would be was well indicated by the speedy and wholesale shutting down of steel mills, first during the general strike of bituminous miners in November and December of 1919, and then during the 'outlaw' railroad strikes in April, 1920."

Why cannot we, as a Country, learn the lesson of England, France, Italy and Denmark, without the misery of learning by our own experience?

Railroad Wages are Paid By Railroad Users.

There is another thought which I wish to leave with you and which should be clearly grasped by the general public and by railroad employes. It

was expressed in these words by the President of our company in a recent general notice to the working forces:

> **"We should never forget that railroad wages are paid by the people who use the railroads; there is no other source from which they can come. Satisfied patrons, receiving good service and courteous treatment, are far more likely to continue willing to pay the rates necessary to maintain generous wage levels than are patrons who are poorly served or discourteously treated."**

Some Visible Signs That The P. R. R. is "Coming Back."

I trust that nothing that I have said will lead you to believe that no progress has yet been made toward a better state of affairs since the termination of Federal control.

Very material betterment has been accomplished since March 1, and results are becoming more clearly visible every day.

On our own road, here are a few of the things we have been able to do:

In six months, from March to August, inclusive, we reduced, by 40 per cent., the average number of engines daily held out of the service for repairs. In the same period, we put in order 38 per cent. more engines than were repaired in the corresponding months of 1919.

We cut down "bad order" freight cars between March and September by two-thirds, and as compared with the high record for "bad order" cars made in 1919, we have reduced by four-fifths the number of cars unavailable for use on account of poor repair.

At the opening of the present month, we had cut "bad order" cars down to exactly 3 per cent. of the total on our lines, whereas 4 per cent. was the mark set for attainment by the Association of Railway Executives.

In August we delivered more coal to New York Harbor than was ever hauled to that port by any railroad in a single month before, and we made new high marks at Philadelphia and Baltimore.

We set new records in the average loading per ton for both bituminous and anthracite coal, thus economizing in the use of equipment.

In four months, from May to August, we nearly tripled the total tonnage of coal delivered to the Tidewater and Lake Ports.

Between April and August, we increased by 43 per cent. the average number of freight cars of all kinds daily dispatched.

In the same period we increased by 27 per cent. the volume of passenger train service rendered and brought up the number of trains on time from 77 per cent. of the total operated to more than 85 per cent., and the number making schedule time from 88 per cent. to more than 93 per cent.

Lastly, since July, we have cleared our yards, tracks and terminals, by getting out of the way and back to the companies which own and need them, more than 50,000 empty cars which were clogging our System, and we have thereby put the Pennsylvania Railroad in much better shape to handle the fall and winter traffic.

Co-operation All Around Will "Finish the Job"

We feel we have made a real beginning toward getting back to our old standards. What we have up to this time accomplished is still far short of the mark, but nevertheless it is a start. To complete the work we need that genuine co-operation of all our own men of which I have been speaking, and public sentiment, properly expressed, can probably do more than any other single thing in helping us to accomplish this end.

I am optimistic. I am sure that through the continued earnest work of our loyal officers and men the high standards of the Pennsylvania Railroad will again be achieved, and the People of Pennsylvania again be proud of the railroad which now carries the name of the State through twelve other great Commonwealths.

But, notwithstanding all our efforts this cannot be accomplished without the continued support, confidence and sympathy of the Harrisburg Chamber of Commerce and similar organizations throughout the Country.

3 0112 061413800